It’s all about income protection

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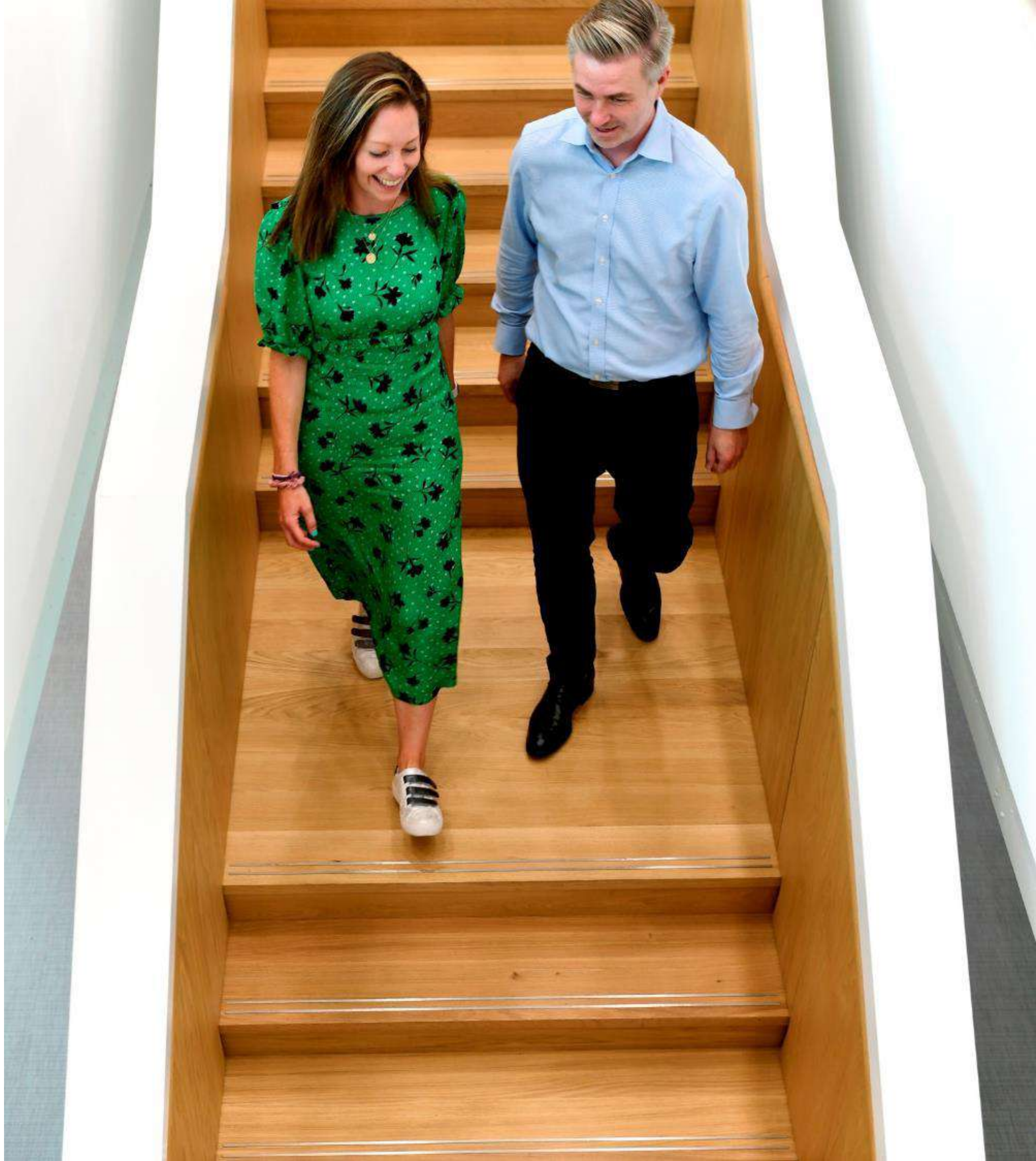
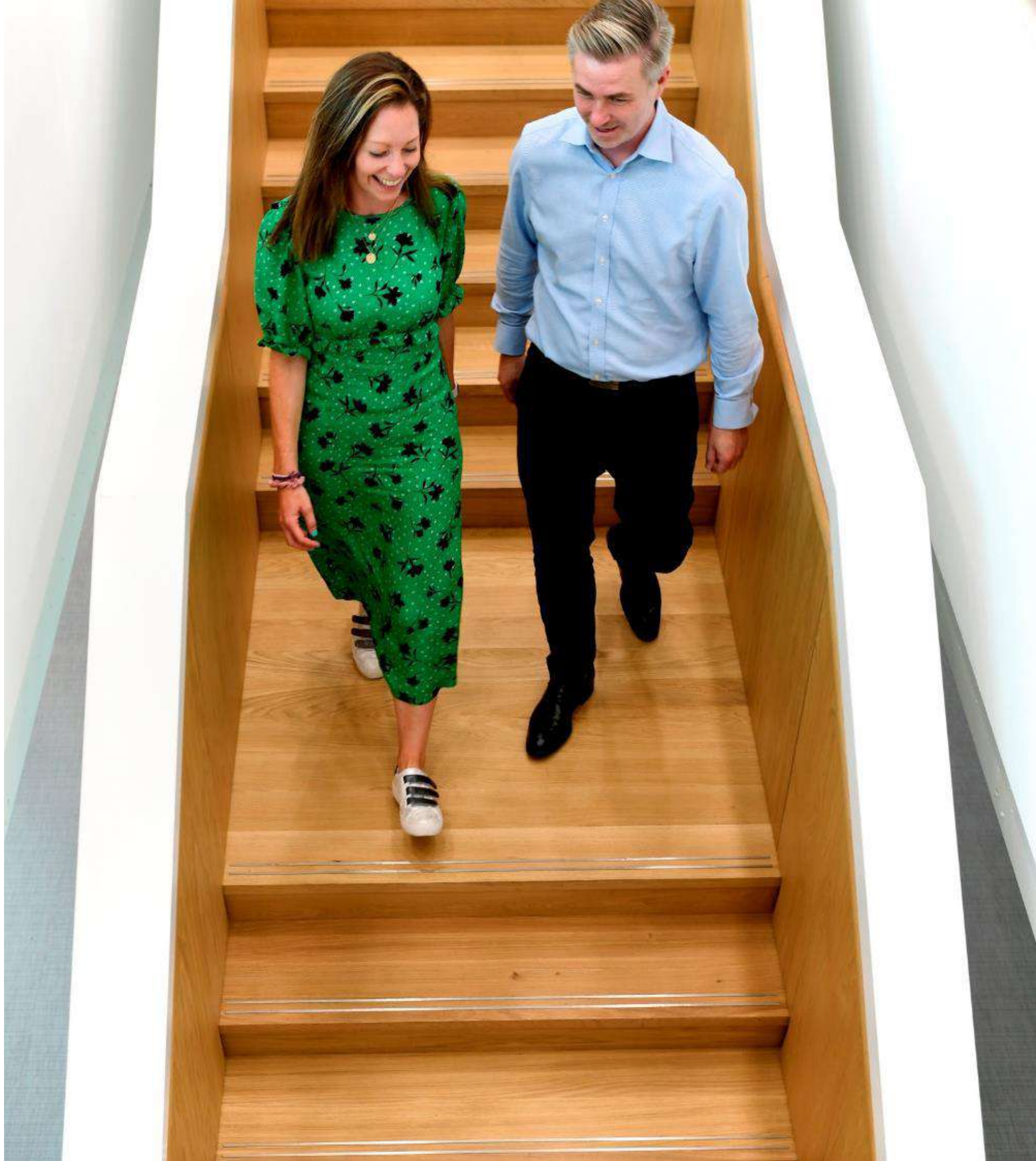
Agenda

- The income protection gap
- The need for income protection
- Understanding income protection
- Spotting the opportunity
- Application, claims and underwriting
- Income protecting for business owners
- Final thoughts



Learning objectives

- Have a better understanding of how income protection really works from application to claim and beyond.
- Explain some of the key considerations to have when arranging income protection for employed and self-employed clients.
- Identify opportunities within your client bank to discuss income protection.



The [income] protection gap

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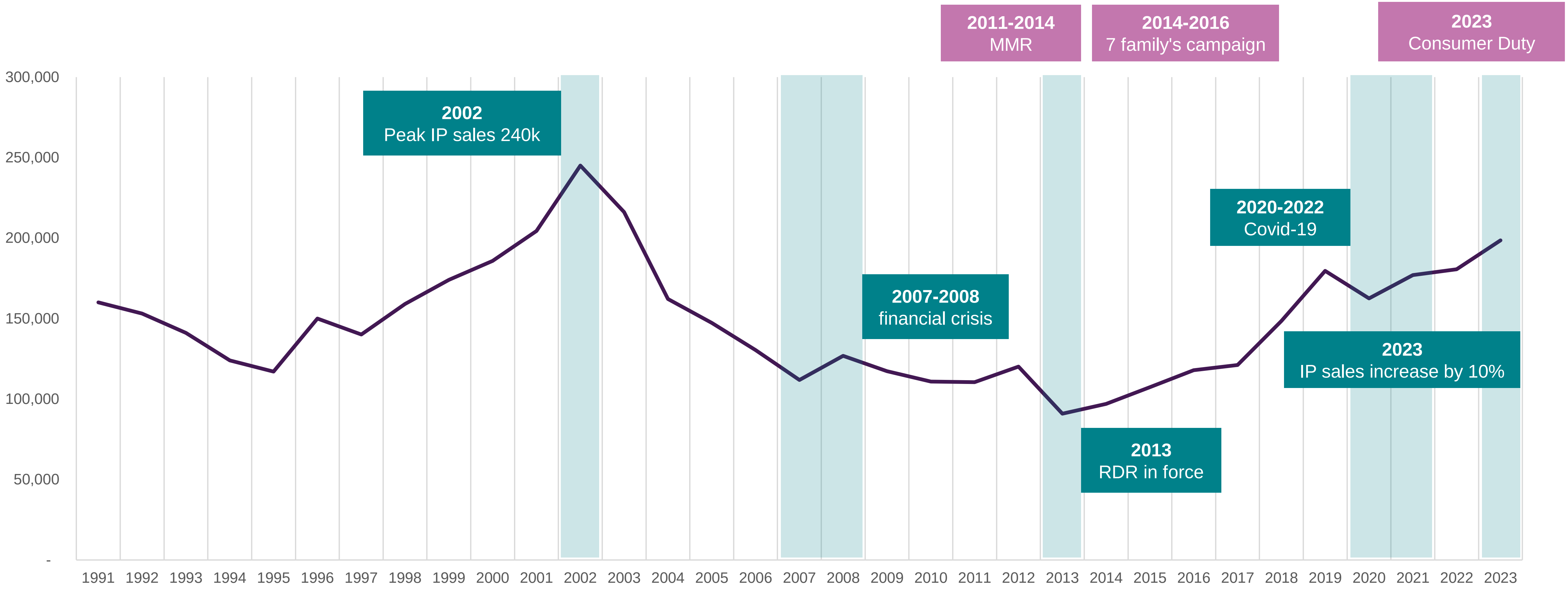
The protection gap

	Homeowner (owned outright)	Homeowner (own with mortgage)	In rented accommodation
Life insurance	36%	63%	29%
Critical illness cover	8%	33%	11%
Income protection	7%	20%	6%
None of these	60%	24%	61%

Source: Royal London Gender Report (2023)

30 years of income protection



 Source: Insuring Change

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The value of advice

Income Protection sales by distribution channel

Distribution channel	2019	2020	2021	2022	2023
Directly authorised	153,678	140,663	153,523	158,271	174,337
Tied	23,335	19,370	21,316	20,027	22,183
Direct	389	903	1,061	1,107	1,075
Bancassurance	2,202	1,579	1,065	1,142	971
Total	**179,605**	**162,515**	**176,965**	**180,547**	**198,566**

Without protection advice do customers understand what they're buying?

 Source: Swiss Re Health and Term Watch 2024 (page 29)

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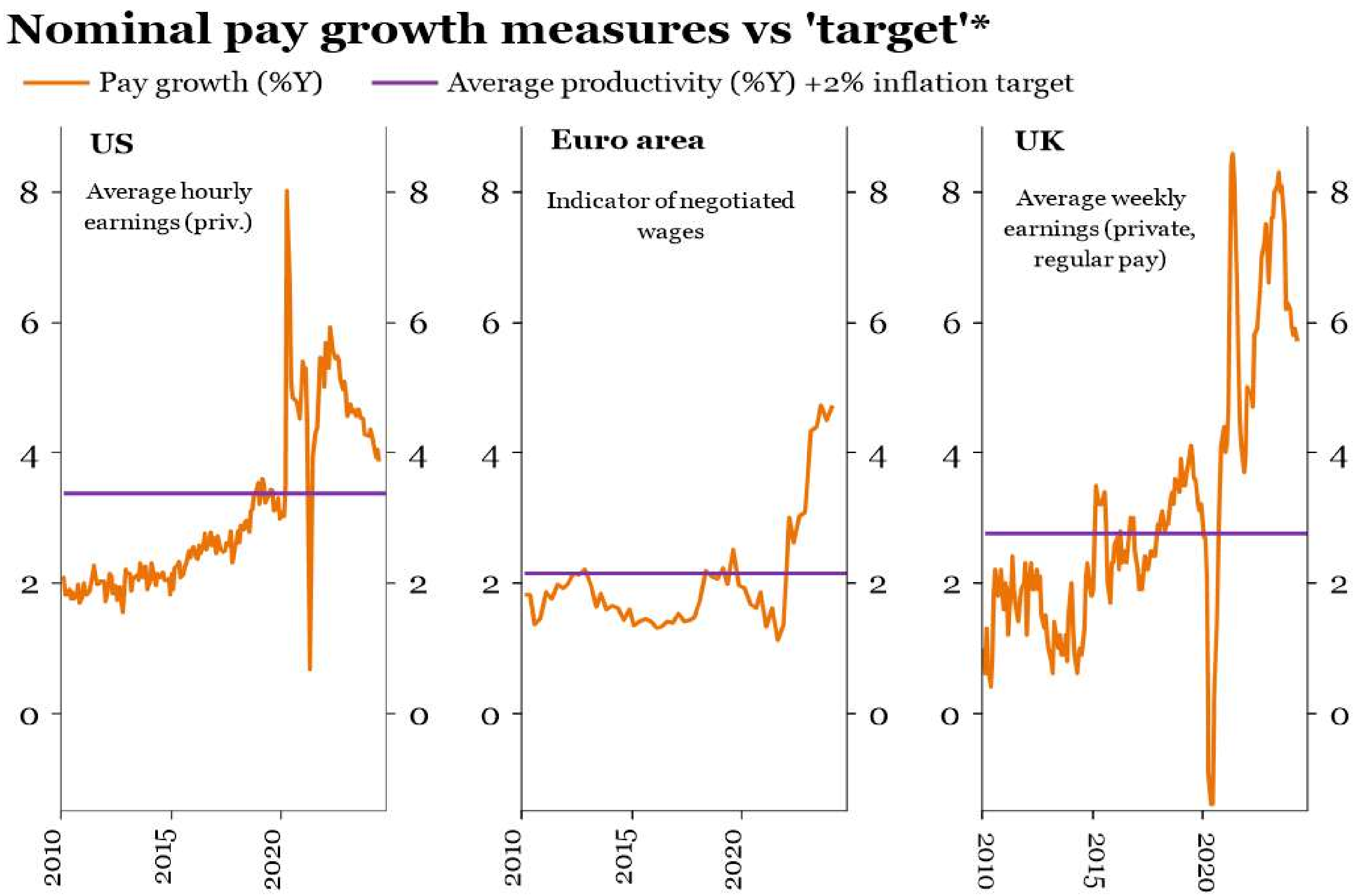
What drives income protection sales?

- Mortgage advice
- Covid
- Referrals
- Changing housing tenure
- Industry developments

Reliance on income



Source: LSEG Datastream as at 15/06/2024

 Source: LSEG Datastream as at 15/06/2024

Despite the gap

Total new income protection sales in 2023 increased by

10.0%

Policies with a two-year limited payment period increased by

12.2%

 Source: Swiss Re Health and Term Watch 2024 (page 15)

The need for income protection


Is there a backup plan?
Off work sick
Lose income
Bills to pay
Need time to recover
Financial stress
Return to work too early
Reoccurrence of incapacity

Possible back-up plans

Employer sick pay?	Savings?	State benefits?	Second income?
Get another job?	Borrow from family?	Remortgage?	Sell investments?
Sell the house?	Payday loan?	Crowdfunding?	Scratch card?

Are these viable options?

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Understanding income protection

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Back to basics

- A way to replace some of your income if you cannot work because of an injury or illness.
- The life assured is paid a monthly tax-free income once their deferred period ends.
- Payments will continue until the end of the policy term, the client returns to work or dies.

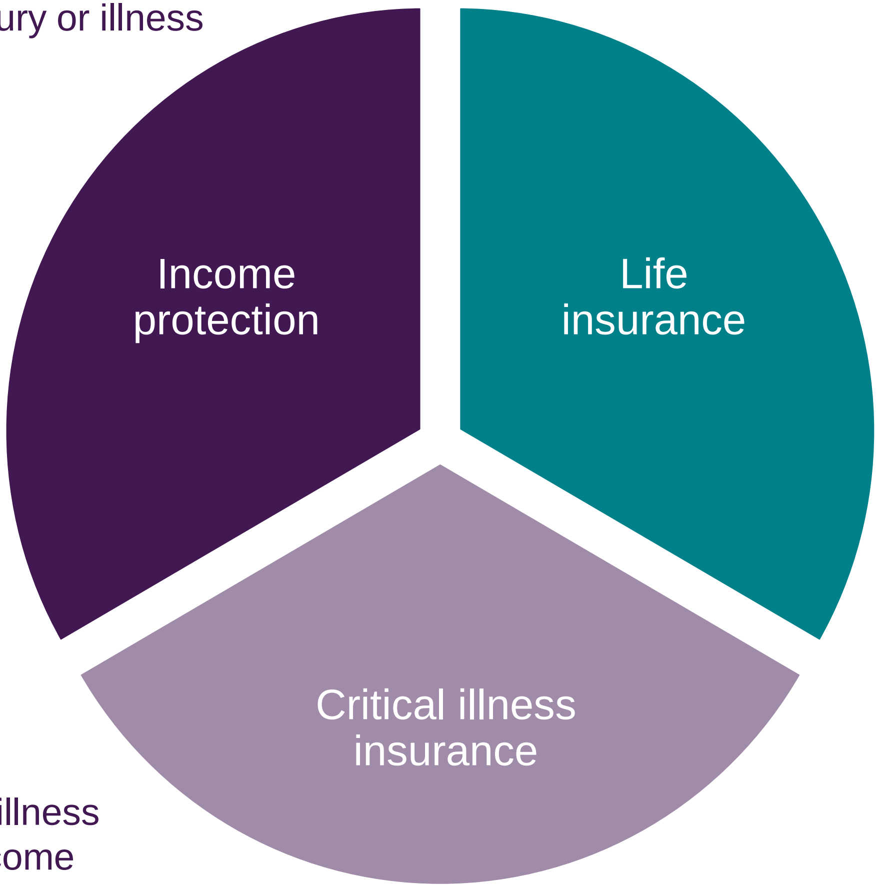
Back to basics

- Individual income protection
  - Personal
  - Executive
  - Key Person

- Group income protection
  - The employer is the policyholder, premiums are paid to the insurer by the employer
  - Claims are generally paid to the employer to pass on to the employee through the PAYE system

How does it compare?

- Personal and business use
- Pays if someone cannot work because of an injury or illness
- Benefit paid after a deferred period
- Written on own life
- Possibility of connected claims
- Financially underwritten at claims stage
- Only available as income
- Classed as a ‘personal’ benefit for trusts



- Personal and business use
- Pays on death/terminal illness
- Can be paid as a lump sum or income
- Can be written in trust
- Written on own life, joint life or life of another
- Underwritten at application stage

- Personal and business use
- Pays on diagnosis of a particular illness
- Can be paid as a lump sum or income
- Can be written in trust
- Written on own life, joint life or life of another
- Underwritten at application stage

Let's talk jargon

Deferred period	Misrepresentation	Free cover
Benefit period	Incapacity	Maximum benefit amount
Waiver of premium	Guaranteed insurability	Rehabilitation benefit
Rider benefits	Connected claims	Indexation
Guaranteed premiums	Occupation classes	Minimum benefit amount

Occupation classes

This is a classification system used by insurers to categorise the risk associated with different occupations when determining premiums and coverage for a policy.

The main factors considered in occupation classes include physical demand of the job, the work environment and the likelihood of illness or injury.

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Application

Key considerations

- How long can they cope financially without their income?
- How much cover is needed in relation to their income?
- How much income do they receive if they become ill and for how long?
- When should the cover stop?
- Should the cover stay level or increase annually?
- Premiums to suit needs and budget

What to consider with sick pay schemes

A significant challenge with income protection is ensuring the cover selected is appropriate not only at the outset but that it continues to be suitable for years down the line.

What if a client changes job?

What if a client has to leave employment

What if a client has two or more occupations?

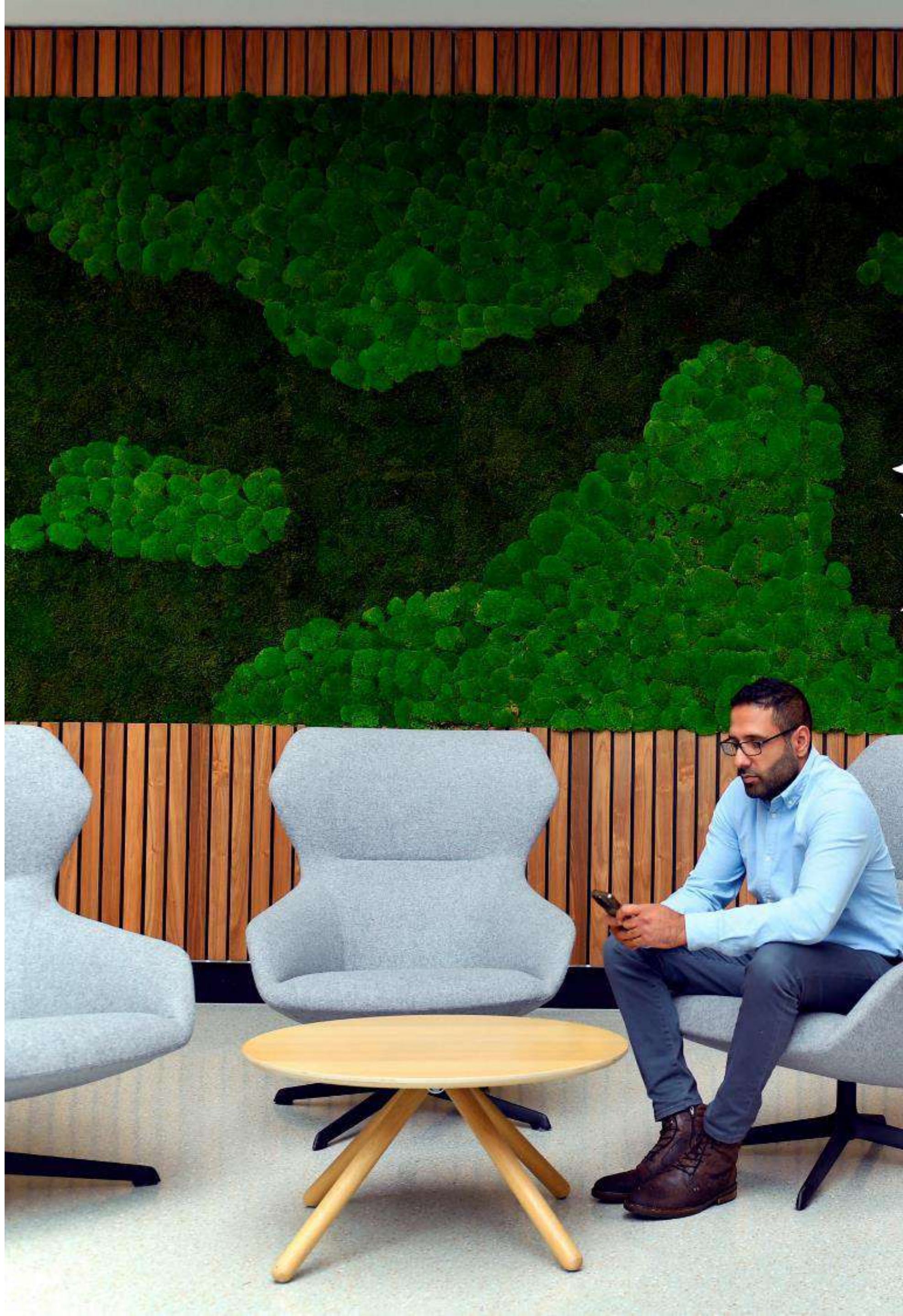
How might an existing sick pay arrangement impact a claim?

If income doesn't stop, income protection might not pay

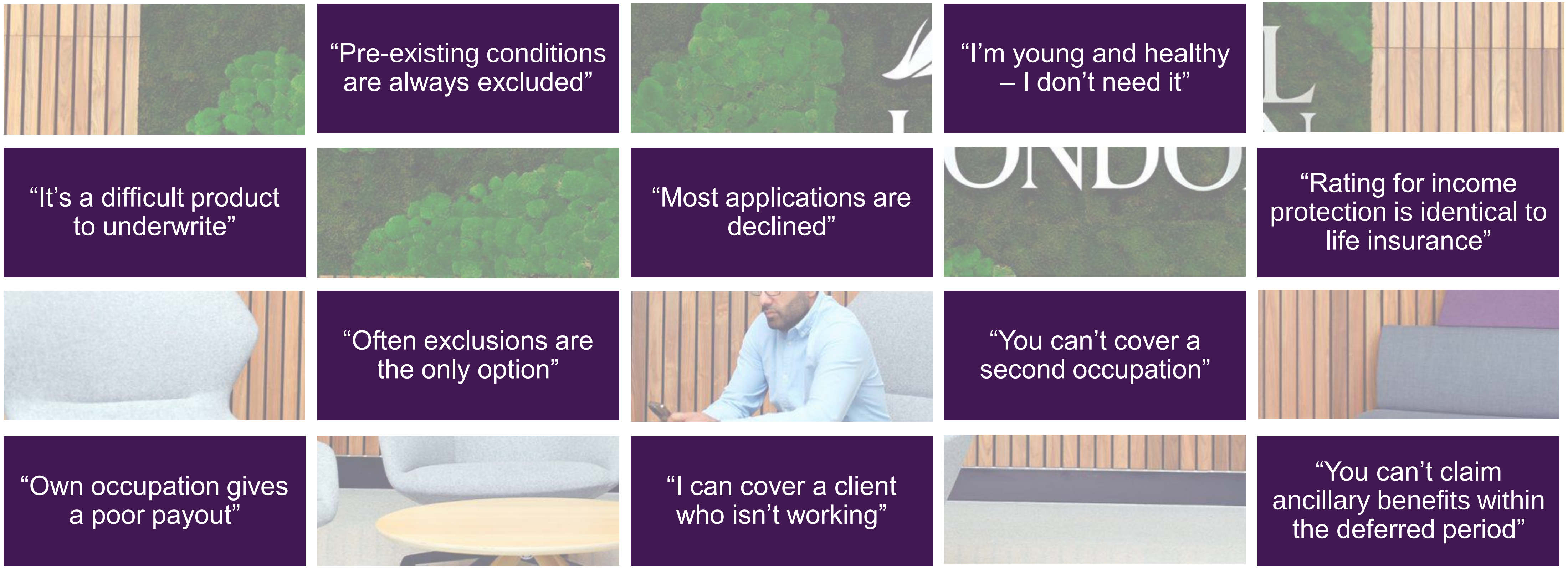
Underwriting

Underwriting top tips

- Be as accurate as possible with customers occupation.
- Use any free text boxes.
- Make the most of any pre-sales underwriting facilities.
- Ensure accurate disclosure during application.
- Be aware of the number of exclusions being applied.



Common income protection myths



“Pre-existing conditions are always excluded”

“I’m young and healthy – I don’t need it”

“It’s a difficult product to underwrite”

“Most applications are declined”

“Rating for income protection is identical to life insurance”

“Often exclusions are the only option”

“You can’t cover a second occupation”

“Own occupation gives a poor payout”

“I can cover a client who isn’t working”

“You can’t claim ancillary benefits within the deferred period”

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Claims

Help us to pay more claims

We're always looking for more ways to minimise the risk of claims being declined – whether it's improvements to the application process or the information we give to your clients.

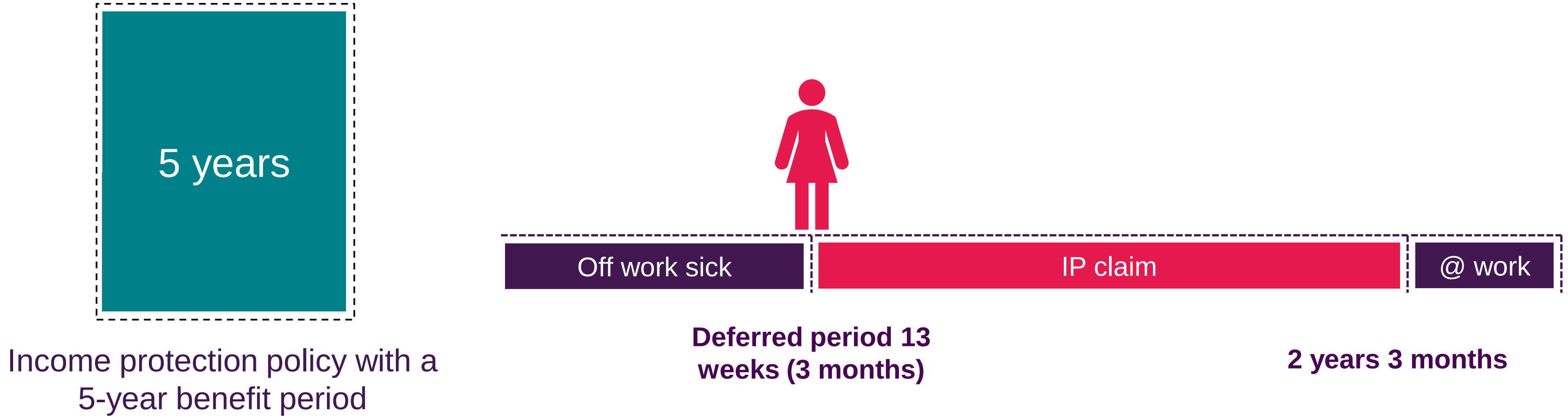
- **Medical history** – if your clients are unsure about a previous illness or medical condition they might want to speak to their doctor before making an application
- **Sick pay –** make sure the level of cover and deferred period suit your clients' needs and circumstances, employer sick pay arrangements can have a direct impact on the cover
- **Customer application –** make sure that all questions on the application form are answered honestly and in full
- **Customer review –** a change in employer, occupation, marital status as well as other major life or lifestyle changes could mean you need to revise your client's cover

Connected claims

Income protection policy with a 5-year benefit period

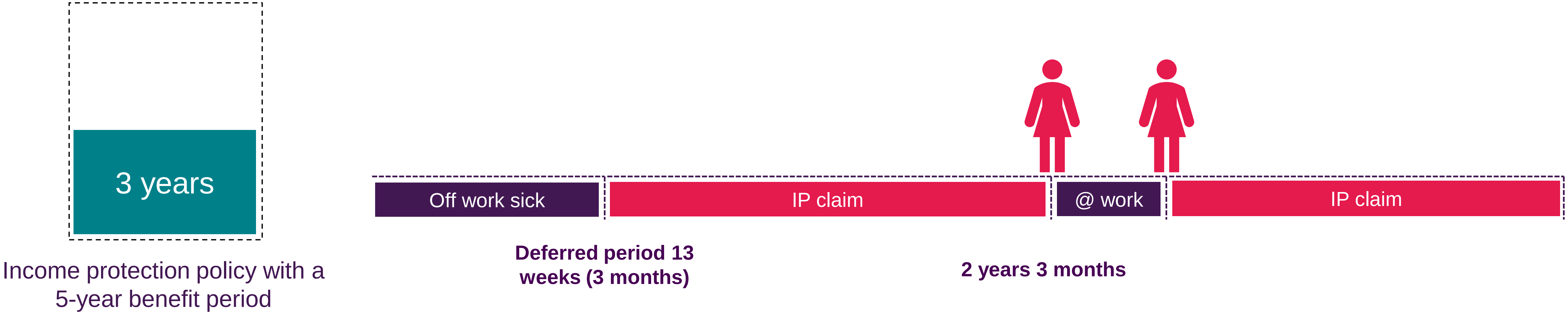
- If Kate is unable to work due to sickness, she must wait until the end of her deferred period before any income protection benefit is paid.
- She is suffering from a muscular skeletal condition.
- Because Kate has a 5-year payment benefit with her insurer, she has the potential to make a claim for up to 5 years

Connected claims



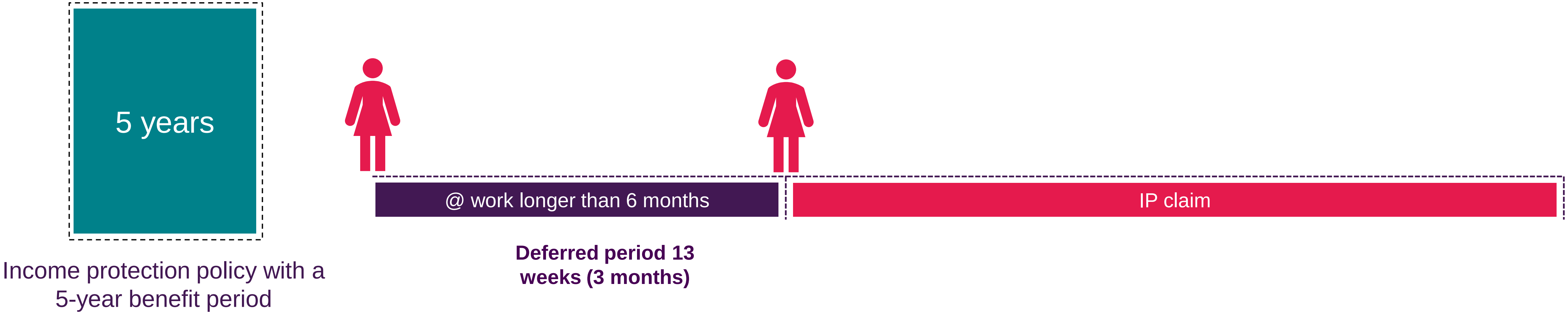
- Kate is off work for a total of 2 years and 3 months receiving income protection benefit during this time
- Kate has received 2 years of income protection benefit.
- Kate recovers and returns to work

Connected claims



- After 2 months back at work, she suffers a relapse of her musculo skeletal problem and has to go off work sick again
- Kate can claim for a further 3 years if needed – a total of 5 years
- And, she won’t have to wait her deferred period – instead, the claim will be paid without waiting for the deferred period to end

Connected claims



- What if Kate claimed for 5 years. She then recovers from her condition and returns to work
- If Kate has returned to work for a period of 6 months or more following her previous claim…
- She could make another claim which would pay income protection benefit for up to 5 more years
- This could be for the same condition as before, or for a new condition but the deferred period will apply

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Top tips for a smooth claim

1. Ensure the customer understands when the cover will pay out (and when it won't).

2. Emphasise the importance of notifying the insurer as soon as possible.

3. Ensure all application questions are answered honestly and in full to remove any risk of a claim not being paid due to misrepresentation.

4. Ensure financial elements of the contract are realistic.

 Source: IPTF Claims Guide for the Self Employed (2022)

Top tips for a smooth claim

5. Conduct regular reviews.

6. Ensure the customer is aware of the financial requirements that would be required for any claim e.g. tax returns, pay slips, company accounts.

7. Engage with the insurer in the customer's preferred manner.

8. If the customer has copies of medical reports, they can submit these directly to the insurer – this may reduce delays for the insurer to get evidence from a GP.

 Source: IPTF Claims Guide for the Self Employed (2022)

Spotting the opportunity

The FCA says...

5.27 Firms should identify the potential for harm that might arise if their products and services change or their understanding about the impact on customers changes and take appropriate action to mitigate the risk of actual or foreseeable harm.

5.28 The regular reviews we require of firms provide an opportunity to identify any new or emerging harms. Firms will also become aware of sources of harms (for example through consumer complaints, management information (MI), press reporting, and FCA supervisory focus and communications such as 'Dear CEO' letters).

5.29 Where harm was not foreseeable at the outset but became apparent later, we would expect firms to take appropriate action to mitigate the risk of actual or foreseeable harm. They could do this by updating or amending the design or distribution strategy of a product or service, providing additional support or updating information or advice. For example, if a debt management or advice firm providing an ongoing service to a customer identifies a change in the customer's circumstances that means the previous advice may no longer be appropriate, the firm should update its advice to the customer, and where appropriate adapt their debt management plan.

Source: FG22/5 Final non-Handbook Guidance for firms on Consumer Duty (July 2022), FCA

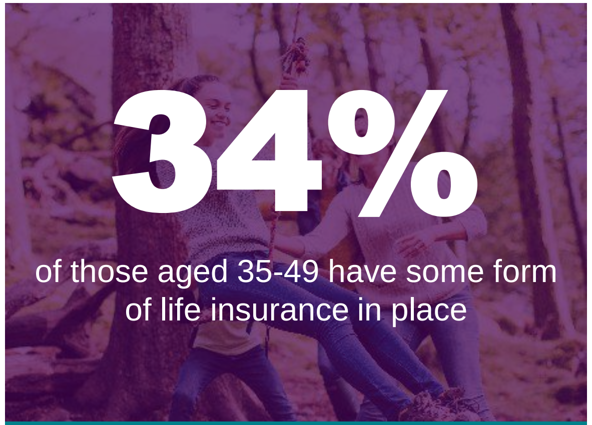
Clients through the years

63%

of those aged 18-34 told us their mental health or mood has been impacted by the cost-of-living crisis[1]

Starting out

First job/home
Career progression
Marriage
Starting a family

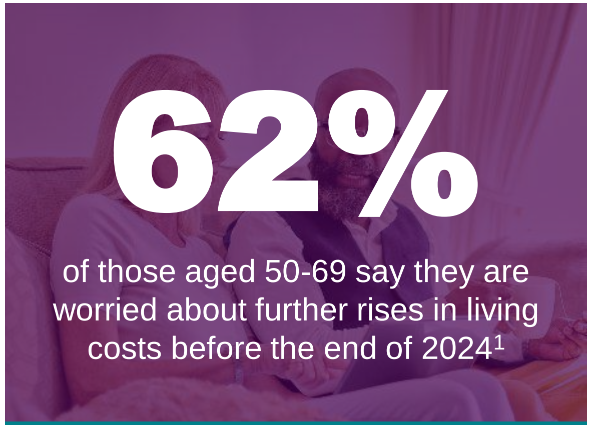


34%

of those aged 35-49 have some form of life insurance in place

Building & growing

Career progression
Marriage
Starting/growing family
Moving home/upsizing



62%

of those aged 50-69 say they are worried about further rises in living costs before the end of 2024[1]

To & through retirement

Managing income
Aging parents
Preparing to/are retired
Grandchildren

79%

of those aged 70 and older own their homes outright, while 5% are still paying mortgages and 14% rent[1]

Later life

Estate planning
Bereavement/death
Living alone
Later life care

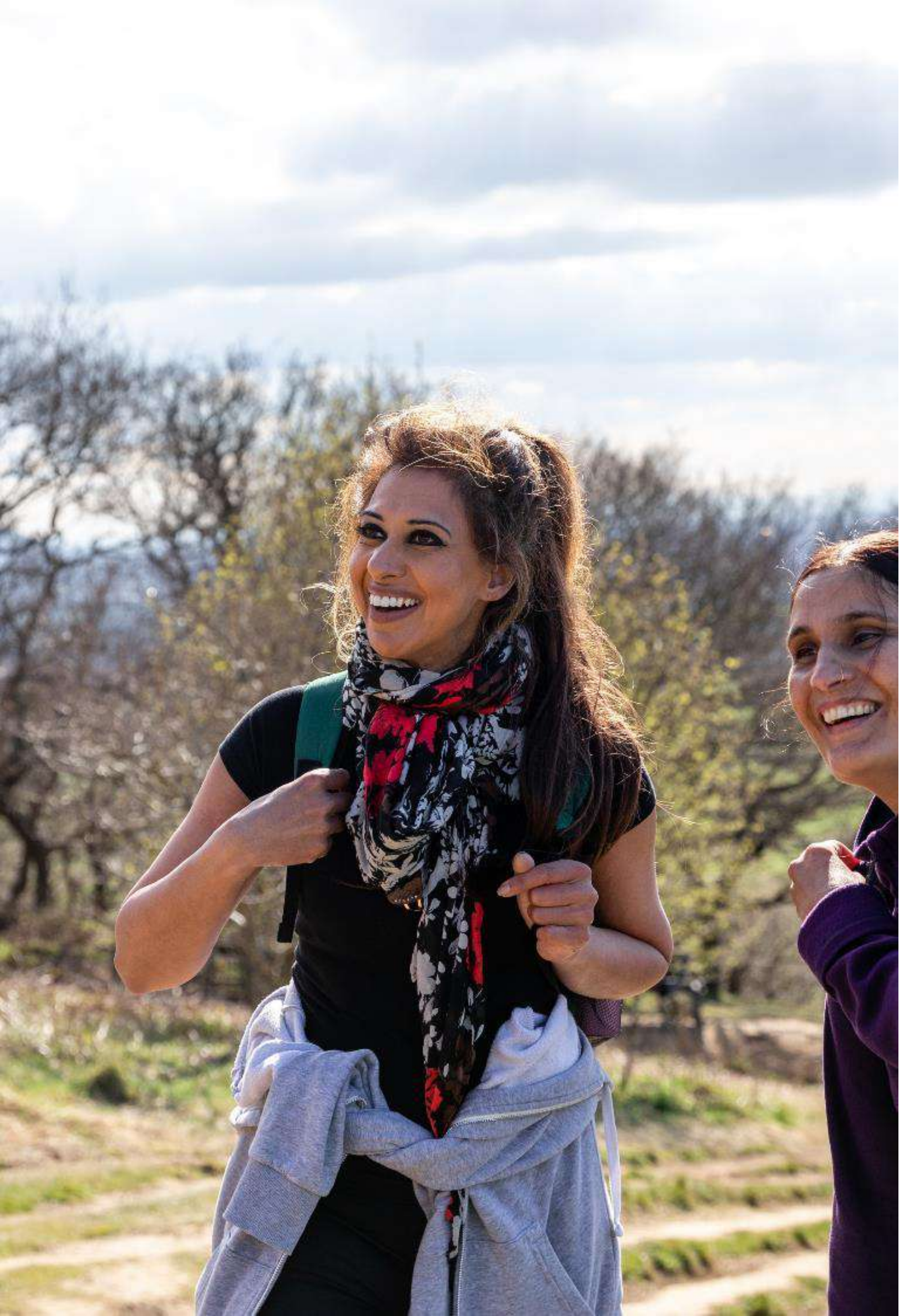
 Source: Royal London Financial Resilience Report (2024)

Making IP part of your advice

- Ask them how they would feel if they'd just been paid for the last time.

- Do clients have income protection policies?
  - Is it still **fit for purpose?**
  - Remind clients of any extra services they have access to through their policy

- Talk about the risks they face
  - Have the risks changed?



Making risk a reality

Let’s meet Elena

30 years old

Non-smoker

Expects to retire at age 68

Let's imagine you had **100 clients like this**

What is the likelihood that one of your clients might need to make a claim on a protection policy during their working lifetime?

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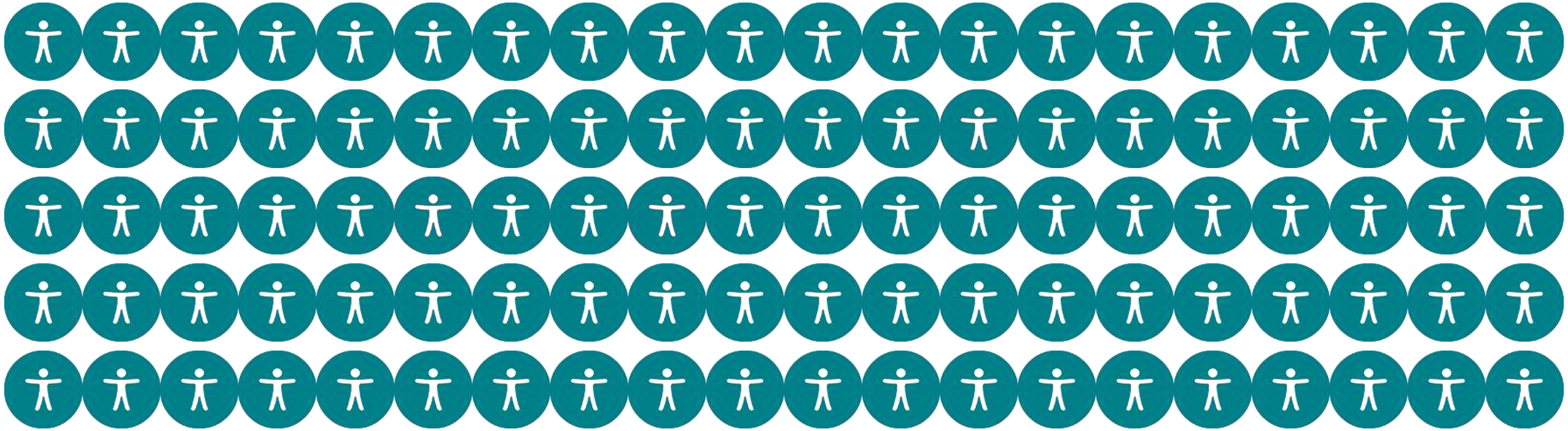
Making the risk a reality



How many of your clients might die before their retirement age of 68?

3%

 I Source: The Institute and Faculty of Actuaries’ Continuous Mortalityy Investigation insured lives incidence rates I example used is of a female, aged 30, non-smoker, retirement age 68.

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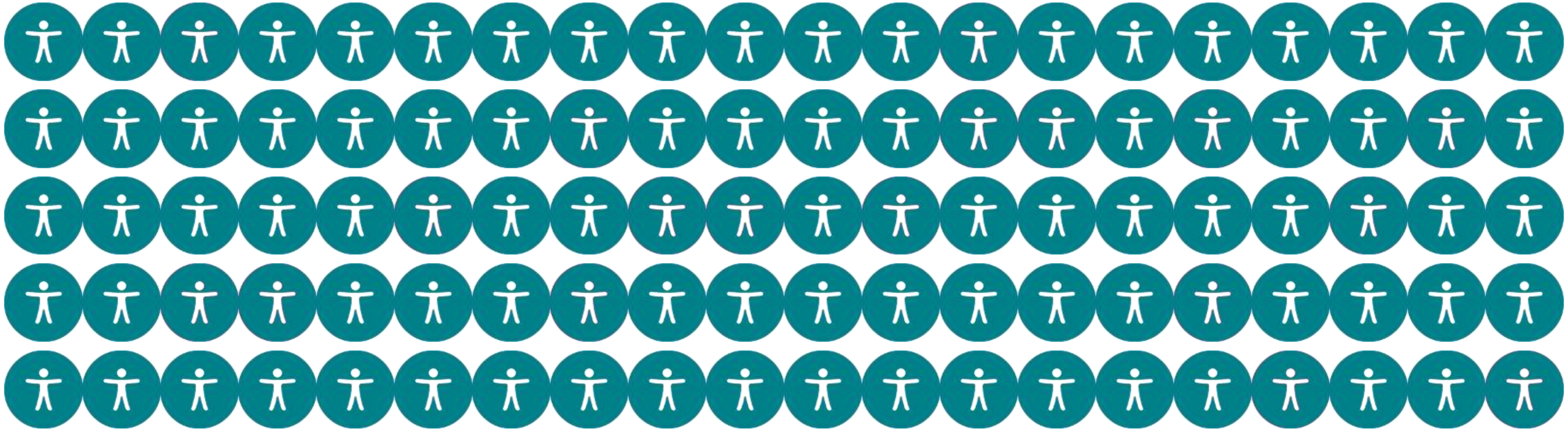
Making the risk a reality



How many of your clients might develop a critical illness before their retirement age of 68?

18%

 Source: The Institute and Faculty of Actuaries' Continuous Mortalityy Investigation insured lives incidence rates I example used is of a female, aged 30, non-smoker, retirement age 68.

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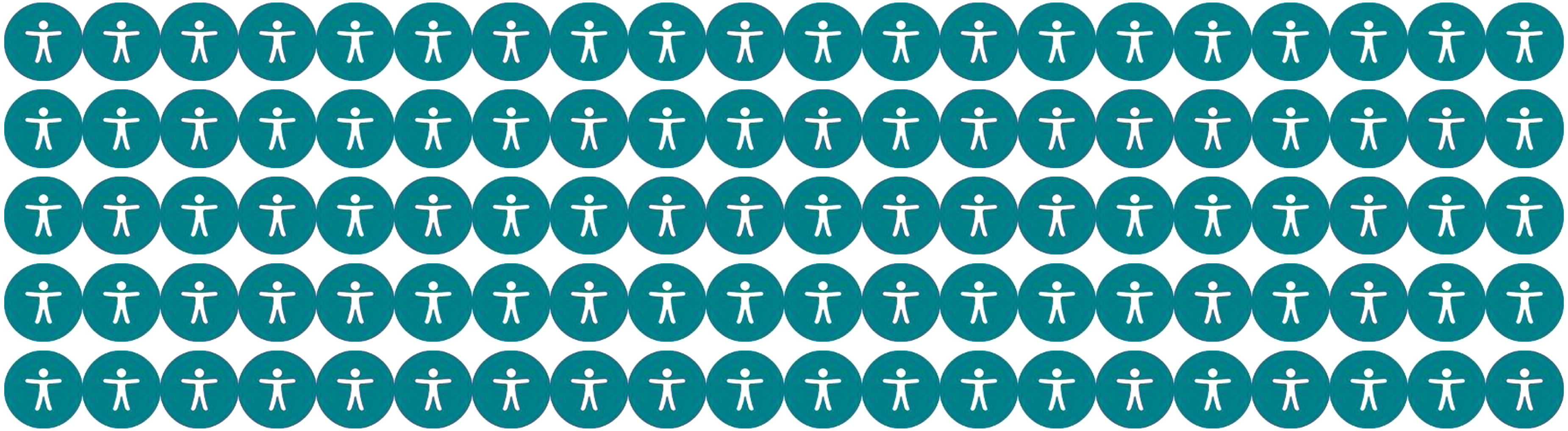
Making the risk a reality

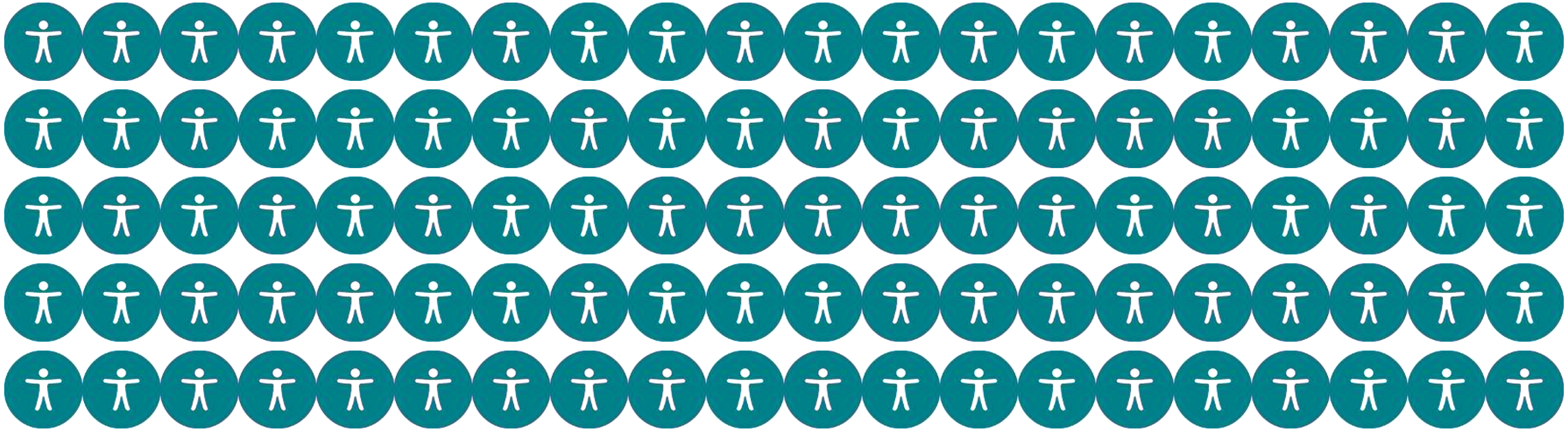


How many of your clients might be off work for more than two months due to illness or injury before their retirement age of 68?

41%

 Source: The Institute and Faculty of Actuaries' Continuous Mortalityy Investigation insured lives incidence rates I example used is of a female, aged 30, non-smoker, retirement age 68.

Making the risk a reality



How many of your clients might face any of these risks before their retirement age of 68?

53%

 I Source: The Institute and Faculty of Actuaries' Continuous Mortalityy Investigation insured lives incidence rates I example used is of a female, aged 30, non-smoker, retirement age 68.

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Identifying target audiences

NHS medical professionals

Renters

No employee benefits

Business owners

Income protection for business owners

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The right solution

Company

Key Person IP

Personal IP

Exec IP

Partnership

Key Person IP

Personal IP

Self-employed

Key Person IP

Personal IP

Cover for the self-employed

- Self-employed clients who are sole traders, have liability for their ongoing costs.
- They may not be able to pause some of these costs, if they need to take time off work due to illness or injury.
- Sole traders can apply for personal and business protection products.
- What if a customer's latest accounts are not available?
- Do they have fixed costs?

Case study
Let’s meet Gary

- Gary’s a self-employed builder.
- His pre-tax profit from his business is £60,000.
- His monthly fixed overheads are a total £1,341 per month (£16,092 per annum) and include things like van hire, rent for premises, and other business expenses needed to keep his business afloat.
- Gary’s paid these costs for the last 12 months.

Case study
His cover

- Gary's pre-tax profits were £21,000 and his allowable fixed overheads were £16,092. This comes to £37,092

- The maximum cover available through his insurer is 65% of £37,092 = £24,109.80

- Gary's total sum insured £24,109.80

Case study
The claim

- Gary's involved in car accident and is unable to work.
- His business can't continue to trade without him, but his overheads remain the same.
- When he claims, Gary provides his insurer with evidence of his pre-disability earnings and fixed overheads.
- As all the above fixed overheads are listed in his company accounts and are verified as continuing despite his incapacity, his claim can be paid in full.

What if Gary's accounts for the latest tax year had not been available?

Case study
His fixed costs reduce

- 6 months after the IP claim starts to be paid, Gary's van loan comes to the end of its term as it's been fully repaid.

- Gary's no longer liable for the loan repayments, this monthly amount is deducted from his outgoings and his monthly claim payment would be reduced to reflect that.

Case study
Getting the business up and running

- Once he’s ready, Gary decides to employ staff to allow his business to continue to trade in his absence.

- If the business continues to make a profit, and the income from this cover together with business profit exceeded the maximum annual benefit, his insurer will reduce the amount paid accordingly.

What can’t Gary use the fixed cost flexibility for?

Top tips

Do	Don't
Ensure your client can claim the benefit amount at application	Don't assume that the benefit amount will cover your client at time of claim
Make sure clients understand the requirements in event of a claim	A bank statement alone will not allow a claims assessment to be made
Check the cover regularly to ensure it continues to support their earnings	Just provide summary invoices
Encourage your client to keep up to date with all requirements	Provide inconsecutive evidence
Be prepared to provide detailed invoices for services provided	Provide an incomplete tax summary
Keep pay slips and/or CIS statements	Provide incomplete reports

 Source: IPTF Claims Guide for the Self Employed (2022)

Final thoughts

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When you partner with us, we'll help you:

Grow your business

Deliver value for clients

Do business easily and efficiently

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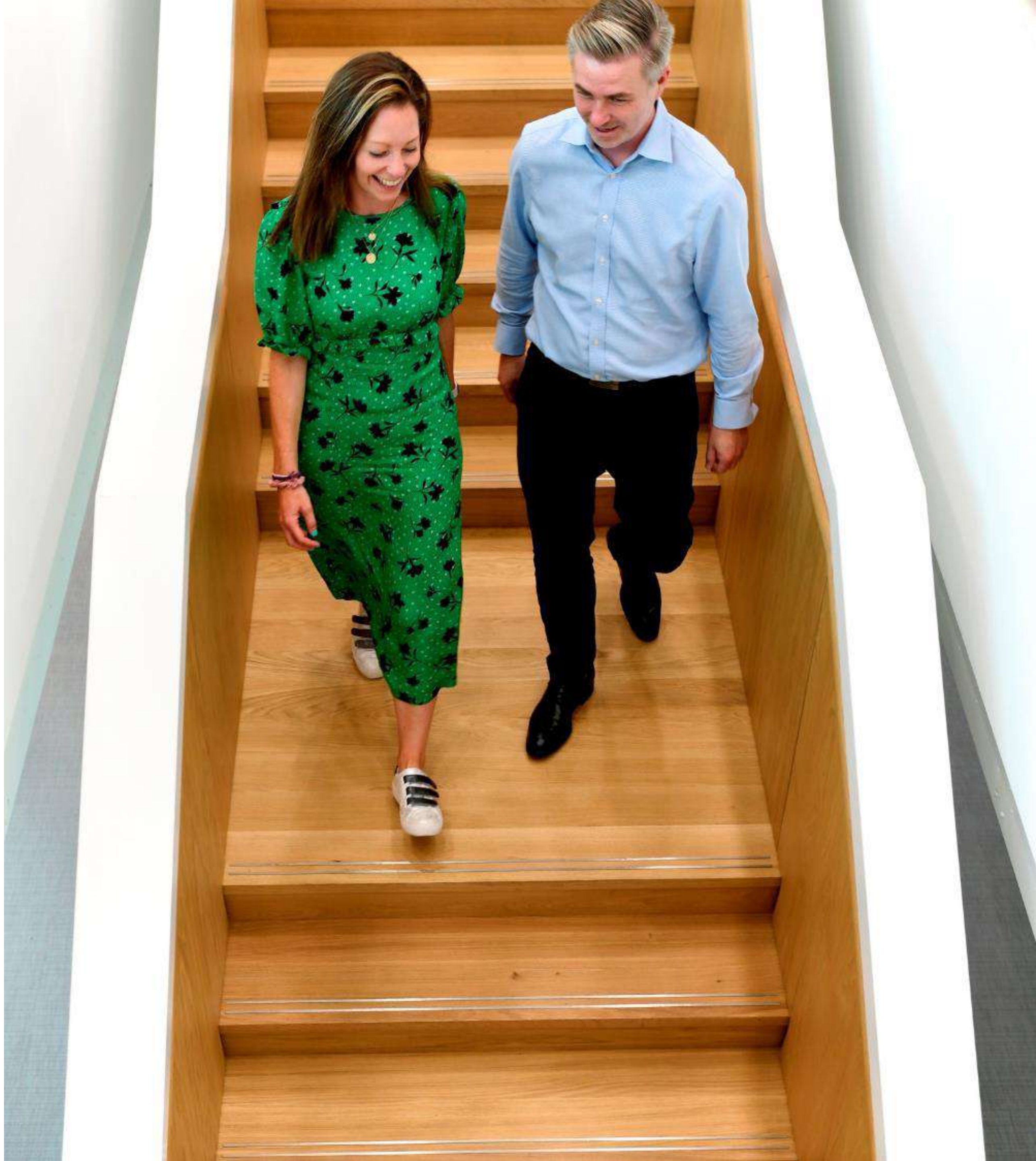
Industry support

Learning outcomes

- Have a better understanding of how income protection really works from application to claim and beyond.
- Explain some of the key considerations to have when arranging income protection for employed and self-employed clients.
- Identify opportunities within your client bank to discuss income protection.



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